CHABOT COLLEGE

Chabot-Las Positas Faculty Association (CLPFA)

FACULTY FOCUS

LAS POSITAS COLLEGE

Analyzing the impacts of the Pension Reform Act

September 12th, 2012 marked "the biggest rollback to public pension benefits in the history of California pensions" according to Governor Brown, who signed the pension reform into law. This is a major defeat for all public employees who are being made the scapegoat for everything wrong with our society.

For many CFT members and other public employees across the state, it is perceived as a stunning betrayal by Democratic legislators who claim to support vital public services and those who provide them. Absent any communication with public employee stakeholders, Democratic leaders in both the Assembly and Senate announced a last-minute deal struck with Brown to implement significant pension cuts, rushed the deal through committee with only an up-or-down vote, and passed the measure into law in less than a week. On August 31st, the last day of the 2012 legislative session, the pension reform passed the legislature with only 9 no votes in the Assembly and a single no vote in the Senate.

Given the trend towards drastic pension reductions around the state and country, the measure signed into law by Brown could have been much worse. This was the rationale given by some Democratic legislators for passing this measure. With substantial pension takeaways submitted to voters in San Jose, San Francisco, and San Diego, and the growing momentum to cut pensions or replace them with 401k plans, many lawmakers explained this measure as a way to take the steam out of such right-wing efforts, while having a minimal impact on the vast majority of public employees.

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Reprint of Articles from AFT 1493's [September *Advocate*](http://aft1493.org/advo/advo9-12.pdf) newsletter is now available online (in pdf format) on AFT 1493's website at: http://aft1493.org/advo/advo9-12.pdf.

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Proposition 30 will fund education, with 90% of revenue from wealthy taxpayers

Proposition 30, the Schools and Local Public Safety Protection Act, is on the November 6 ballot. Along with Proposition 32, it is the most important issue facing California voters among the many ballot measures.

State budget cuts to public education funding, totaling $20 billion over the past four years, have taken a terrible toll on our ability to deliver the education our students need and deserve. Prop 30 will raise $9 billion in the first year, and $6 billion a year for six years after that, for public education and other services. It will also provide constitutional approval for the governor's realignment of funding for local public safety services while protecting Proposition 98 school funding.

Prop 30 would increase income tax rates on individual incomes in excess of a quarter million dollars per year, and modestly increase the state sales tax by ¼ cent, to provide desperately needed revenues to rebuild our schools and services.

Prop 30 is a progressive tax measure, with 90% of the revenues coming from wealthy taxpayers and the other 10% from the small increase in the state sales tax. An analysis by the California Budget Project found that the wealthiest one percent of Californians – those with annual incomes of $533,000 or more – would contribute more than three-quarters (78.8 percent) of the revenues raised by Prop 30's tax increases, while the top 5 percent of Californians – those with annual incomes of at least $206,000 – would contribute 81.2 percent of the revenues raised

Prop 30 will begin to restore cuts to school programs devastated by years of recession. It will also prevent another $5 billion in "trigger cuts" scheduled to kick in January 1, 2013 if Prop 30 fails to pass.

The ballot measure will not solve all the state's problems with one magic wave of the fiscal wand. California now suffers an annual state budget deficit nearly twice the revenue the state will receive from this ballot measure. But it's an important start, and key to its success is that it gets most of the money from the people who have it and can easily afford to pay their fair share. The top one percent of income earners has doubled its share of California's income while paying lower tax rates than it used to twenty years ago.

Yes on Measure I
Yes on Prop 30!
No on Prop 32!
Tax Millionaires to fund our schools

Proposition 32 claims to be "campaign finance reform" but exempts corporate special interests who back it

Proposition 32, a measure appearing on the November statewide ballot, is not what it seems. While it claims to be about "stopping special interests" the measure actually exempts corporate special interests and Super

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PACs from its proposed rules. Instead, Prop 32 would give even more power to the wealthy and well-connected to influence elections, control government

prop and weaken our state's middle class, while drastically reducing the ability of unions to represent their members and address workers' needs through the political process.

The millionaire backers of Prop 32 misleadingly call it "The Stop Special Interest Money Now Act," claiming it would rein in campaign contributions by both unions and corporations. In fact, the deceptive wording of the initiative specifically limits the voice of union members like teachers and school employees, as well as nurses, firefighters and police.

This one-sided measure would make our post-"Citizens United" political system even more unbalanced. It does nothing to stop the flow of money from the wealthy in politics. According to non-partisan research, corporations already outspend unions in the political process by a margin of 15 -1.

The very same corporate special interests who carefully exempted themselves from Prop 32 and who stand to benefit from its passage – Big Oil, billionaire businessmen and the Super PACs linked to the Koch Brothers and Karl Rove – are now spending millions to pass Prop 32 and advance their interests at the expense of everyday Californians.

That's because the Koch Brothers, Rove, and the rest of the Super PAC billionaires know that if Prop 32 passes, they will have even more political power to write their own set of rules.

L.A. Times columnist, Michael Hiltzik, wrote the following about Prop. 32:

In this state, we've come to expect ballot initiatives sponsored by business interests to be, essentially, frauds. But it's hard to conceive how one could be more fraudulent than Proposition 32. If there was any doubt left that the initiative process has been totally corrupted by big business and the wealthy, this should put it to rest for all time.

Proposition 32 is nothing but an attack by Republicans and conservatives on unions and their members. Two previous attempts by the same gang failed at the ballot box, in 1998 and 2005. What's new about this effort is that it's dressed up as a broad reform aimed at "special interests," and it's even more union-unfriendly than its predecessors

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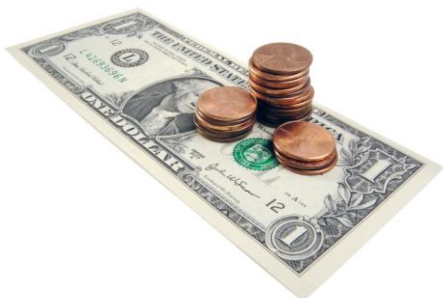
Here are some of the significant changes CalSTRS has identified.

New CalSTRS members required to work longer

Changes in the normal retirement age from 60 to 62 with a 2 percent age factor will mean that new employees will need to work until age 62 to receive full retirement benefits compared to the current allowable age of 60. CalSTRS estimates the total fund savings from the changes to the benefit formula to be $22.7 billion over 30 years. Primary savings to the fund reflect:

- A reduced benefit formula.
- A required final compensation based on three years.
- A cap on compensation allowed to calculate a defined benefit, otherwise known as creditable compensation.



Initial changes to the normal, ongoing cost of benefits are estimated to result in a contribution rate of 8 percent of payroll for new employees. Based on legislative changes set forth in AB 340, which requires that employees pay at least 50 percent of normal costs, a normal cost of 15.9 percent of payroll is projected for future members. This represents a reduction from the existing plan structure projected normal cost, for those same future members, of 18.51 percent. Normal cost is the present value of benefits attributed by the pension formula to employees

Anti-spiking tool enhances safeguards

AB 340 establishes a limit on compensation that is counted toward calculating a member's pension which will further enhance existing CalSTRS safeguards against pension spiking. For new CalSTRS members (starting on or after January 1, 2013), who like existing members, are not covered by Social Security, the initial limit is 120 percent of 2013 Social Security wages, which will be approximately $132,000.

CalSTRS plan design validated

Overall, the changes as set forth in AB 340 recognize the appropriateness of the existing CalSTRS plan design. CalSTRS administers a comprehensive, hybrid system that includes a defined benefit plan, a cash balance plan similar to a 401(k) but with a minimum earnings guarantee, and a defined contribution plan. CalSTRS members earn a reasonable benefit for the service they provide to California's students. They receive on average about 55 percent of their final salary and retire at nearly age 62 having performed more than a quarter century of service. What cannot be measured is the potential impact the new pension changes will have on the attractiveness of public education as a profession.

Long-Term Funding

The CalSTRS $64.5 billion funding shortfall can be managed with thoughtful action. With the Legislature's approval of SCR 105 on August 31, plans are underway to work with affected stakeholders to develop three alternative plans as requested in the resolution. The plans will consider gradual, incremental increases in contributions to address the long-term funding needs of the Defined Benefit Program. Once completed CalSTRS will submit the plans to the Legislature early next year as outlined in the resolution. The Legislature has expressed its intent to address the long-term health of the fund in the 2013-14 legislative session.

For a more detailed CalSTRS fact sheet on the effects of the Pension Reform Act, see:

"Summary of AB 340, the California Public Employees' Pension Reform Act of 2013 and its Impact on CalSTRS Members"